



Contingency arrangements for five minute settlement implementation

Stakeholder submissions invited on new rule change request

The Australian Energy Market Commission (AEMC) has published a consultation paper on a rule change proposal from the Australian Energy Market Operator (AEMO). AEMO seeks to provide contingency options for a potential delay to the implementation of the Five Minute Settlement (5MS) and Global Settlement and market reconciliation (GS) rules, if this is determined to be necessary.

The Commission notes that all participants should continue to work towards a 5MS and GS soft start commencement date of 1 October 2021. A delay will only occur if it is deemed necessary.

AEMO's rule change request

On 30 July 2021, AEMO submitted a rule change request proposing an urgent rule to provide contingency options for a potential delay to the implementation of the 5MS and GS rules. AEMO only seeks to delay the implementation of these rules if an issue arises that cannot be managed by AEMO for the successful commencement of 5MS and GS soft start on 1 October 2021. AEMO will provide a market start notice by 1 September 2021 that states if a contingency event has occurred, and if an issue has occurred, the time required to remediate the issue.

The Commission's approach to assessing the rule change request

The Commission will consider AEMO's market start notice as a key indicator of AEMO and industry readiness for the commencement of 5MS and GS soft start. As such, the Commission intends to apply the following approach to assessing the rule change. If AEMO's market start notice indicates for 5MS and GS soft start that:

- **No delay is needed** – the Commission will make no rule and 5MS and GS soft start will commence as scheduled on 1 October 2021.
- **A short delay is needed** – the Commission is very likely to delay the start of 5MS and GS soft start to the date specified in AEMO's market start notice, which AEMO has indicated is likely to be 1 December 2021.
- **An extended delay is needed** – the Commission will consider whether to delay the start of 5MS and GS soft start to 1 February 2022 or 1 April 2022. In determining the preferred date the Commission will take into account industry implementation costs and delayed benefits, summer implementation risk, contract market implications and implications for other reforms.

If stakeholders have strong reasons for why another date should be considered, they should contact the AEMC as soon as possible and include evidence in their submissions.

Issues for consultation

On 5 August 2021, the AEMC published a consultation paper seeking feedback on key issues arising from the rule change request, including:

- the appropriate length of a delay to 5MS and GS soft start if AEMO's market start notice identifies a need for a delay,
- potential changes to the commencement of global settlement financial start, wholesale demand response and other regulatory reforms,
- the ability to manage risk and re-negotiate contracts for any potential delay,

- the ability to manage additional risk of summer operations with the start of 5MS, and
- the impact of additional industry implementation costs and delayed benefits.

The Commission requests that where possible, evidence should be provided to support stakeholder submissions. Any confidential cost information can be treated as confidential and redacted from submissions published on the AEMC's website. The Commission also welcomes early submissions where possible.

Treatment as an urgent rule change request

AEMO has requested that the rule change request be subject to the expedited rule making process on the basis that it is an 'urgent rule'. AEMO considers its rule change request meets the requirements of an urgent rule under the NEL as, if not made as a matter of urgency, the inability to implement 5MS could result in imminent prejudice or threat to the effective operation and administration of the wholesale electricity market. The Commission has decided to use the expedited process to consider this rule change request unless we receive any valid requests not to use the expedited process by 19 August 2021.

Key dates

- Commencement of this rule change process: **5 August 2021**,
- public webinar: **9 August 2021**,
- objections to an expedited process due by: **19 August 2021**,
- AEMO market start notice on 5MS essential capability readiness by: **1 September 2021**,
- submissions to the proposal due by: **2 September 2021**, and
- final decision to be published under an expedited process by: **30 September 2021**.

Background on five minute settlement and global settlements rules

On 28 November 2017, the Commission made a rule to align operational dispatch and financial settlement at five minutes. The benefits of 5MS include improved:

- price signals for more efficient generation and use of electricity,
- price signals for more efficient investment in capacity and demand response technologies, and
- bidding incentives.

On 6 December 2018, the Commission made a rule to introduce a 'global settlement' framework for settlement of the demand side of the wholesale electricity market. The benefits of the GS rule include:

- improved transparency, leading to fewer settlement disputes between retailers and lower levels of unaccounted for energy over time,
- competition on equal terms between the local retailer and other retailers, and
- improved risk allocation, so risks are allocated to parties that are best placed to manage them.

On 9 July 2020, in response to a rule change request from AEMO related to COVID-19 impacts, the Commission made a rule to delay the start of 5MS and GS by 3 months, to commence on 1 October 2021.

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5 August 2021